HB 540
Impact on Local Government and School Districts

Prepared for the

Legislative Finance Committee

by

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Introduction

House Bill 540 is a voter initiative concerning motor vehicle taxes which will be voted on in November 2000. HB 540 was passed during the regular session in 1999, and was amended by HB 4 during the special session in May 2000.

HB 540 would substantially change the way light vehicles are taxed. Under the current system, light vehicles are taxed on an ad valorem basis, with a tax rate of 1.4 percent applied to the depreciated value of a light vehicle. The passage of HB 540 would abolish this system and would impose a fee schedule based on age of the light vehicle. HB 540 would alter slightly the fee schedule imposed on motorcycles and quadricycles.

HB 540 would allow owners of light vehicles, motorcycles and quadricycles which are older than 10 years of age to register their vehicles permanently. In addition, owners of light vehicles, motorcycles or quadricycles of any age could register and pay the fees for a two-year registration period.

HB 540 substantially complicates the distribution scheme of revenue from motor vehicles. Unlike under law before January 1, 2000, each vehicle type would have its own distribution scheme, thus complicating the distribution tasks of county treasurers. County treasurer duties will also increase as a result of the two-year and permanent registration features of HB 540 by requiring additional information to be kept on each vehicle. The two year and permanent registration provisions in HB 540 may also cause record keeping problems for county treasurers and taxpayers when combined with a new law (HB 648, 1999 session) requiring that vehicle license plates be replaced at a minimum of every four years.

This report will explain in detail current law taxation and revenue distribution of all motor vehicles, as well as the changes that would be imposed if HB 540 passes the electorate in November 2000. The vehicle revenue distribution systems under current law and HB 540 will be explained. In addition, the complications of certain revenue distribution provisions in HB 540 on county treasurers will be explored. Finally, options for simplification of the vehicle revenue distribution system will be outlined.

Main Features of HB 540

The original version of HB 540 contained the following provisions:

Motor Vehicle Taxation

- Beginning January 1, 2001, abolishes the ad valorem tax of 1.4 percent per year on the depreciated value of light vehicles (SB 260, passed during the 1999 legislative session, had reduced the tax rate on light vehicles to 1.4 percent from 2 percent).

- Beginning January 1, 2001, abolishes the 1.5 percent "new car" sales tax which under present law applies to all light vehicles, motorcycles and quadricycles, trucks over 1 ton, buses, and motor homes.

- Beginning January 1, 2001, establishes a new fee on light vehicles, which varies by age of vehicle. For light vehicles less than 5 years old, the fee is $195 per year. For light vehicles at least 5 years old and less than 11 years old, the fee is $65 per year. For light vehicles 11 years and older, the fee is $6 per year. The new fee would apply to new light vehicles, unlike the current system in which new light vehicles pay the "new car" sales tax, and are exempt from all other taxes and fees-in-lieu-of-tax in the first year.

- Beginning January 1, 2001, establishes a new fee schedule for motorcycles and quadricycles. The current fee schedule and HB 540 fee schedule for motorcycles and quadricycles are detailed later.

- Beginning January 1, 2001, establishes a permanent registration system for light vehicles, motorcycles, and quadricycles which have attained an age of 11 years or older; establishes a two-year registration period for all light vehicles, motorcycles, and quadricycles.

- Allows counties to impose a local option flat fee on light vehicles in place of the current ad valorem local option tax of 0.7 percent, by a vote of the electorate.

Vehicle Revenue Distribution

- Beginning January 1, 2001, creates a new distribution mechanism for light vehicle revenue: distributes 10 percent of revenue from light vehicles to a special revenue account for district courts, as under current law; distributes the revenue from "newly titled" light vehicles to the special revenue highway account; distributes the remaining light vehicle revenue across all local government and school district mills and the 1.5-mill vo-tech levy. No light vehicle revenue would be distributed to the 40-mill statewide levy, the 55-mill county equalization levy, the 6-mill university levy, or the 9-mill welfare levy.[1]

- Beginning January 1, 2001, creates a new distribution mechanism for fee revenue from motorcycles and quadricycles: distributes revenue from "newly titled" motorcycles and quadricycles to the special revenue highway account; distributes the remaining revenue from motorcycles and quadricycles across all local government and school district mills and the 1.5-mill vo-tech levy. No motorcycle and quadricycle revenue would be distributed to the 40-mill statewide levy, the 55-mill county equalization levy, the 6-mill university levy, and the 9-mill welfare levy.

- Beginning January 1, 2001, creates a new distribution mechanism for fee revenue from motor homes, buses, trucks over 1 ton and truck tractors: distributes revenue from "newly titled" vehicles of these types to the special revenue highway account; distributes the remaining revenue across all local government and all state mills, as under current law.

- Retains the state appropriation to school districts' general fund for any shortfall in revenue from light vehicles and motorcycles and quadricycles below fiscal 1999 levels, a provision that was enacted in SB 260.

- Beginning January 1, 2001 requires that revenue from local option taxes or fees on "newly titled" light vehicles must be distributed to the highway state special revenue account.

- Allows the highway state special revenue account to retain its own interest earnings, beginning July 1, 2001.

Impact of House Bill 4 (Special Session May, 2000) on HB 540

House Bill 4, passed during the special session in May 2000, substantially altered several of the provisions of HB 540:

- Abolishes the distribution of revenue from "newly titled" light vehicles, motorcycles and quadricycles, motor homes, buses, trucks over 1 ton, and truck tractors to the highway account; instead distributes to the highway account the revenue from "newly manufactured"[2] light vehicles, motorcycles and quadricycles, motor homes, buses, trucks over 1 ton, and truck tractors.

[1] SB 260 had already abolished the distribution of light vehicle revenue to the 40-mill statewide levy and 6-mill university levy beginning January 1, 2000. In addition, HB 4 passed during the 2000 special session and amending SB 260 abolished the distribution of light vehicle revenue to the 55-mill county equalization levy beginning July 1, 2001.

[2] The actual language in HB 540 which distributes revenue to the highway account is "fees from vehicles for which an original application for title or the original Montana registration is sought." This clearly refers to vehicles which are "newly titled" in Montana and may include used vehicles brought in from out of

- Abolishes the state appropriation to school districts' general fund for any shortfall in revenue from light vehicles, motorcycles, and quadricycles below fiscal 1999 levels. Also requires school districts to anticipate 98 percent of actual fiscal 1999 revenue from light vehicles in their fiscal 2001 general fund budgets.

- Abolishes the distribution of local option tax revenue from "newly titled" light vehicles to the highway state special revenue account.

Taxation of Vehicles Under Current Law and HB 540

Light Vehicles

Light vehicles include cars, light trucks, vans, and sport utility vehicles (SUV's). Before January 1, 2000, these vehicles were taxed by the state at a rate of 2 percent of depreciated value. SB 260 reduced the tax rate to 1.4 percent beginning January 1, 2000. Newly manufactured light vehicles are exempt from the tax, and instead pay a "new car" sales tax of 1.5 percent.

Under SB 260, the tax rate of 1.4 percent on light vehicles will be altered on January 1, 2001 and every January 1st thereafter. If SB 260 remains in place after the election in November, 2000, the new rate will be adjusted downward by the growth in taxable vehicle value in the prior tax year, and thus statewide light vehicle revenue will stabilize at fiscal 2001 levels. On January 1, 2001, the tax rate of 1.4 percent will decline to approximately 1.3 percent if light vehicle value grows at 7.6 percent, the average growth rate between fiscal 1995 and 1999.

If HB 540 passes in November 2000, then beginning January 1, 2001, the light vehicle tax and the "new car" sales tax would be abolished and a fee schedule would be imposed on all light vehicles, including "newly manufactured".

The HB 540 fee schedule is shown in the following table.

Table 1
HB540 Light Vehicle Fees

Vehicle Age	Fee
0-4 years old	$ 195
5-10 years old	$ 65
11 years and older	$ 6

Under HB 540, owners of light vehicles that have attained an age of 11 years may choose to register the vehicle permanently upon payment of $50, and an amount equal to 5 times the annual fees imposed by other sections of law. These fees include the junk vehicle disposal fee, the weed control fee, the county motor vehicle computer

state. HB4 struck this language in HB 540 and substituted "for which a license is sought and an original application for title which includes a manufacturer's statement of origin", thus restricting the distribution of revenue to the highway account from vehicles which are "newly manufactured".

fee, the local option vehicle tax or fee, and certain other fees. In addition, the owner of a permanently registered vehicle must pay $2 to the state general fund for payment of supplemental benefits to certain retired highway patrol officers under 19-6-709, MCA.

Also under HB 540, owners of all light vehicles which have not been permanently registered may opt to register and pay light vehicle fees every two years. The amount of the new registration fee and all other fees is twice the annual rate for each.

Motorcycles and Quadricycles

Under current law, motorcycles and quadricycles pay a fee based on age and engine size, as shown in the table below.

Table 2a
Motorcycle and Quadricycle Vehicle Fees

Current Law	Engine Size		
61-3-527 Age of Motorcycle/Quadricycle	600 cc and less	601 cc to 1,000 cc	1,001 cc and larger
less than 2 yrs old	$ 30.00	$ 70.00	$ 110.00
2 yrs old and less than 5 yrs old	$ 25.00	$ 55.00	$ 90.00
5 yrs old and less than 11 yrs old	$ 15.00	$ 40.00	$ 65.00
11 yrs old and older	$ 10.00	$ 30.00	$ 40.00

Under HB 540, the new fee schedule beginning January 1, 2001 would be the following:

Table 2b
Motorcycle and Quadricycle Vehicle Fees

HB540 Enacted	Engine Size		
Age of Motorcycle/Quadricycle	600 cc and less	601 cc to 1,000 cc	1,001 cc and larger
Less than 5 yrs old	$ 30.00	$ 55.00	$ 90.00
5 yrs old and less than 11 yrs old	$ 15.00	$ 20.00	$ 50.00
11 yrs old and older	$ 6.00	$ 6.00	$ 6.00

Under HB 540, owners of motorcycles and quadricycles that have attained an age of 11 years may choose to register the vehicle permanently upon payment of $30, and an amount equal to 5 times the annual fees imposed by other sections of law. These fees include the motorcycle safety training fee, the weed control fee, the county motor vehicle computer fee, the local option vehicle tax or fee, and certain other fees. In addition, the owner of a permanently registered motorcycle or quadricycle must pay $2 to the state general fund for payment of supplemental benefits to certain retired highway patrol officers under 19-6-709, MCA

Also under HB 540, owners of all motorcycles and quadricycles which have not been permanently registered may opt to register and pay motorcycle and quadricycle fees every two years. The amount of the new registration fee and all other fees is twice the annual rate for each.

Revenue Distribution Under Current Law and HB 540

HB 540 substantially complicates the distribution of revenue from all vehicles when compared with the revenue distribution under SB 260.

Table 3 shows the vehicle revenue distribution scheme for three periods of time: 1) January 1, 2000 through June 30, 2000, which imposes a new distribution system under SB 260 as passed by the 1999 legislature; 2) July 1, 2000 forward under SB 260 as amended by HB 4, and 3) January 1, 2001 forward if HB 540 (as amended by HB 4) passes the electorate.

The vehicles are grouped in the following categories: 1) light vehicles; 2) motorcycles and quadricycles; 3) buses, trucks over 1 ton, truck tractors and motor homes; and 4) travel trailers, trailers, campers, semi-trailers, and pole trailers.

In Table 3, the first panel shows the distribution system as enacted in SB 260 (as passed during the regular session in 1999) for January 1, 2000 to June 30, 2000. SB 260 increased the distribution to the district court account to 10 percent from 7 percent. This distribution has always applied to light vehicles only. The remaining light vehicle revenue under SB 260 is distributed to all state and local mills with the exception of the statewide 40-mill levy and the university 6-mill levy. Revenue from other motor vehicle types is distributed across all state and local mills, as in the past.

The second panel in Table 3 shows the distribution system for motor vehicle revenue under SB 260 as amended by HB 4. This distribution system will begin July 1, 2000 and will become present law from then forward, unless HB 540 passes. HB 4 eliminated the distribution of light vehicle revenue to the county equalization 55-mill levy, thus increasing the amount available for distribution to the remaining mill accounts. This elimination means that the state general fund will receive light vehicle revenue only from the vo-tech 1.5-mill levy, with the remainder redistributed to all local mills and the state 9-mill welfare special revenue account.

Table 3
Vehicle Revenue Distribution
Present Law - May 2000

Under SB260 - Jan 1, 2000 - June 30, 2000

	Rate = 1.4% Light Vehicles	Fee-Based Motorcycles Quadricycles	Fee-Based Trucks, Buses *	Fee-Based Trailers Campers, etc **
10% to District Court	Yes	No	No	No
Mill Distribution	All Local State GF- 55 Welfare - 9 Vo-Tech - 1.5	All Local State GF - 95 U-System - 6 Welfare - 9 Vo-Tech - 1.5	All Local State GF - 95 U-System - 6 Welfare - 9 Vo-Tech - 1.5	All Local State GF - 95 U-System - 6 Welfare - 9 Vo-Tech - 1.5

HB 4 Impact

Under SB 260 amended by HB4 - July 1, 2000 forward

	Rate = 1.4% Light Vehicles	Fee-Based Motorcycles Quadricycles	Fee-Based Trucks, Buses *	Fee-Based Trailers Campers, etc **
10% to District Court	Yes	No	No	No
Mill Distribution	All Local Welfare - 9 Vo-Tech - 1.5	All Local State GF - 95 U-System - 6 Welfare - 9 Vo-Tech - 1.5	All Local State GF - 95 U-System - 6 Welfare - 9 Vo-Tech - 1.5	All Local State GF - 95 U-System - 6 Welfare - 9 Vo-Tech - 1.5

HB 4 Impact

Under HB 540 amended by HB4 - Jan 1, 2001 forward

	Fee-Based Light Vehicles	Fee-Based Motorcycles Quadricycles	Fee-Based Trucks, Buses *	Fee-Based Trailers Campers, etc **
10% to District Court	Yes	No	No	No
Highway Account Distribution	New Only	New Only	New Only	No
Mill Distribution	All Local Vo-Tech - 1.5	All Local Vo-Tech - 1.5	All Local State GF - 95 U-System - 6 Welfare - 9 Vo-Tech - 1.5	All Local State GF - 95 U-System - 6 Welfare - 9 Vo-Tech - 1.5

* Category includes buses, trucks greater than 1 ton, truck tractors (61-3-529) plus motor homes (61-3-522).

** Category includes travel trailers and campers (61-3-523) and trailers, pole trailers and semitrailers (61-3-530).

The third panel of Table 3 shows the impact on the distribution of vehicle revenue if the HB 4-amended version of HB 540 passes, beginning January 1, 2001 and forward.

The distribution system for vehicle revenue becomes significantly more complicated. First, as under current law, 10 percent of the revenue from light vehicles is distributed to district courts, and none from other vehicle types.

Second, revenue from "newly manufactured" light vehicles, motorcycles, quadricycles, buses, heavy trucks and truck tractors and motor homes (but not trailers and campers) is distributed to the highway account. The remaining revenue from light vehicles, motorcycles, and quadricycles is distributed to all local mills and the vo-tech 1.5 mill levy only, and not to the statewide mill levies or the welfare 9-mill levy. The remaining revenue (after the highway account distribution) from buses, heavy trucks, truck tractors and motor homes is distributed across all local and state mills, as is all the revenue from campers and trailers.

Estimates of Changes in Light Vehicle Revenue Receipts Under SB 260 and HB 540, as Compared with Fiscal 1999 Receipts

Table 4 shows fiscal 1999 collections of the light vehicle tax, the "new car" sales tax, and the local option light vehicle tax. The distribution among government entities and accounts was estimated since no information exists which records all receipts of light vehicle revenue.

Table 4 also shows for fiscal 2001 and fiscal 2002 expected light vehicle revenue, "new car" sales tax revenue, and local option light vehicle revenue. These estimates are by government entity as imposed by the amended version of SB 260 and the amended version of HB 540. The difference columns compare expected HB 540 revenue with revenue received in fiscal 1999 by each government entity and account.

If HB 540 passes in November, 2000, the new registration fee will initially raise about the same amount of revenue in fiscal 2001 as the 1.4 percent tax will raise, $62.2 million under HB 540 and $62.4 million under SB 260, compared with $83.0 million collected in fiscal 1999. In fiscal 2002, the revenue under the HB 540-imposed registration fee will exceed the estimated amount under SB 260 because SB 260 "freezes" statewide revenue at $62 million by requiring the light vehicle tax rate to be reduced by the growth in prior year taxable light vehicle value.

In spite of nearly equal revenues in fiscal 2001 under SB 260 and HB 540, the amount available for mill distribution under HB 540 is approximately $52.1 million compared to $56.2 million under SB 260, a difference of about $4.1 million. This is because HB 540 requires a portion of the light vehicle revenue be distributed to the highway state special revenue account, whereas under SB 260 there is no such distribution. After taking into account the redistribution of revenue away from the 9-mill welfare levy account under HB 540, the average reduction in light vehicle revenue to local governments and school districts in fiscal 2001 will be about 7.4 percent. This represents one-half of a full year's difference since in fiscal 2001, the light vehicle revenue stream will be composed of one-half year of taxes imposed under SB 260 and one half year of fees imposed under HB 540. In fiscal 2002, receipts of HB 540 light vehicle revenues by local governments and school districts, compared with those same revenues under SB 260, will be reduced by approximately 12.2 percent. This is the result of a full year's distribution to the highway account offset somewhat by growth in the numbers of vehicles under HB 540.

The revenue impacts of each bill, when compared to each other, are dwarfed by the revenue differences between each bill and the revenues received in fiscal 1999. Shown in Table 4 are the differences in revenue receipts by each government for HB 540 and for fiscal 1999. The difference in the amount available for distribution across the mills under HB 540 and actual receipts in fiscal 1999 will be $25.1 million in fiscal 2001 and $28.5 million in fiscal 2002. Most of this difference (75 percent in fiscal 2001, and 68 percent in fiscal 2002) will be born by the state general fund, directly through the loss of the distribution of light vehicle revenue to the state 95 mills, and indirectly through the loss of the distribution to the university 6 mill levy and the 9-mill welfare levy.

Local governments and school districts, nevertheless, will receive substantially less light vehicle revenue under HB 540 than was received in fiscal 1999. The result for these jurisdictions could be property tax increases to make up for the shortfall. In addition, because of a shortfall in light vehicle revenue received by school districts' general fund, state GTB costs in the future will increase by approximately one half of the expected shortfall as shown for the school district general fund in Table 4.

Table 4
Comparison of Light Vehicle Revenue under SB260-Amended and HB540-Amended Fiscal 2001 and Fiscal 2002, Compared with Fiscal 1999

Entity/Fund	Fiscal 1999 2.0% Light Vehicles Tax	Revenue Under SB260-Amended * 1.4% Light Vehicle Tax FY01	Revenue Under SB260-Amended * 1.4% Light Vehicle Tax FY02	Revenue Under HB540-Amended * Light Vehicle Fee FY01	Revenue Under HB540-Amended * Light Vehicle Fee FY02	Difference from FY99 HB540 less FY99 FY01	Difference from FY99 HB540 less FY99 FY02
District Court	5,810,362	6,249,286	6,249,286	6,218,240	6,280,002	407,878	469,640
DOT	-	-	-	3,847,055	7,809,521	3,847,055	7,809,521
Total Upfront Distribution	5,810,362	6,249,286	6,249,286	10,065,295	14,089,523	4,254,933	8,279,161
Available for Mill Distribution	77,194,809	56,243,578	56,243,578	52,117,106	48,710,493	(25,077,703)	(28,484,316)
State General Fund	17,428,025	-	-	-	-	(17,428,025)	(17,428,025)
University 6 mills	1,094,087	-	-	-	-	(1,094,087)	(1,094,087)
State Assumption of Welfare	787,978	755,355	755,355	377,678	-	(410,301)	(787,978)
County Government	12,375,939	11,863,561	11,863,561	10,987,344	10,414,460	(1,388,596)	(1,961,479)
County Road Fund	1,434,758	1,375,357	1,375,357	1,273,776	1,207,361	(160,982)	(227,397)
Countywide Transportation	796,737	763,751	763,751	707,342	670,461	(89,395)	(126,276)
Countywide Retirement	5,097,536	4,886,492	4,886,492	4,525,586	4,289,621	(571,950)	(807,915)
Schools' General Fund	22,085,640	21,171,268	21,171,268	19,607,604	18,585,258	(2,478,036)	(3,500,383)
Schools Non-General Fund	5,521,410	5,292,817	5,292,817	4,901,901	4,646,314	(619,509)	(875,096)
Miscellaneous Districts	2,150,209	2,061,188	2,061,188	1,908,953	1,809,420	(241,256)	(340,790)
Cities/Towns	8,422,490	8,073,789	8,073,789	7,477,476	7,087,599	(945,014)	(1,334,892)
Total Light Vehicle Revenue	83,005,171	62,492,865	62,492,865	62,182,401	62,800,016	(20,822,771)	(20,205,155)
DOT "New Car" Sales Tax	11,267,111	12,955,232	13,891,895	6,945,947	-		
Local Option Vehicle Tax **	17,846,112	19,904,865	21,407,682	20,641,484	23,987,856	3,625,424	6,971,796
Revenue from All Sources	112,118,394	95,352,961	97,792,442	89,769,833	86,787,872	(17,197,347)	(13,233,359)

Revenue estimates based on the following assumptions: Taxable light vehicle value will grow at 7.55 percent per year; numbers of vehicles will grow 1.5 percent per year.

The fiscal 1999 distribution shown above is taken from work done by TPR, Department of Revenue, for HB4 compiled on April 21, 2000.

* HB4, passed during the special session in 2000, amended both SB260 and HB540. The amendment to SB260 eliminated the distribution of light vehicle revenue to the state 55-mill levy. The amendments to HB540 changed the distribution of light vehicle revenue to the DOT to include revenue from "newly manufactured" vehicles only, and eliminated the distribution of the local option tax to the DOT.

** Under HB540, the local option tax will apply to "newly manufactured" light vehicles, which are exempt from the local option tax under current law. This will generate approximately 3.3 million more in local option tax revenue per year for counties and cities. This revenue would be available for distribution to counties and cities to offset reductions in HB540 revenue available for mill distribution.

Motorcycles and Quadricycles

Under current law, revenue from motorcycles and quadricycles is distributed across all local and state mills. Under HB 540, a distribution will first be made to the highway account for newly manufactured cycles, with the remaining distributed to all local mills, plus the vo-tech 1.5 mill levy in 5 counties.

Table 5 below shows the impact on revenue from cycles that would have been received by all local governments (and the 1.5 mill levy) had HB 540 been in existence in fiscal 1999.

Table 5
Motorcycle & Quadricycle Revenue
Calendar 1999 Simulation of Revenue
All Governments- Millions

Present Law	Under HB540	
To Mills	Highways	To Mills
$1.28	$0.21	$0.76
Loss in Motorcycle Revenue to Mills		($0.52)
Loss to Local Gov't		($0.20)

Revenue from cycles under present law is distributed to all mills, including state; Under HB540 to local mills only (and the vo-tech 1.5 mill levy).

The reduction in revenue from cycles under HB 540 is estimated to be $0.31 million per year, but the loss in the amount available for distribution to mills will be $0.52 million because of the distribution of a portion of cycle revenue to the highway account. The loss to local governments will be less than this amount ($0.2 million, or about 16 percent) because this revenue will no longer be distributed to state mills.

Highway State Special Revenue Account

Table 6 shows the impact of HB 540 on the state Department of Transportation highway account. HB 540 abolishes the "new car" sales tax, which provided approximately $11.3 million to the highway account in fiscal 1999. Under HB 540, the revenue from "newly manufactured" light vehicles, motorcycles and quadricycles, buses, trucks over 1 ton, truck tractors and motor homes (but not trailers and campers) will be distributed to the highway account. As a result of this distribution of vehicle revenue, the highway account will realize a shortfall relative to fiscal 1999 receipts of "new car" sales tax of $2.2 million in fiscal 2001, and $6.1 million in fiscal 2002. The impact in fiscal

Table 6
Department of Transportation
Highway Account Revenue
Millions

Fiscal Year	SB260	HB540	Difference
1999	$ 11.3	$ 11.3	$ -
2000	$ 12.1	$ 12.1	$ -
2001	$ 13.0	$ 10.8	$ (2.2)
2002	$ 13.9	$ 7.8	$ (6.1)

Under HB540, highway account will begin receiving its own interest earnings beginning July 1, 2001.

2001 is for one half-year only. Some of this impact on the highway account will be mitigated by a provision in HB 540 which allows the account to retain its own interest.

Local Option Tax Revenue

The reduction in revenue from the statewide ad valorem tax on light vehicles distributed to county and city governments under HB 540, relative to amounts received in fiscal 1999, is approximately $2.3 million in fiscal 2001 and $3.3 million in fiscal 2002. However, most counties and cities will more than recoup this revenue loss from the expansion of the local option light vehicle tax to include "newly manufactured" light vehicles. Under HB 540, the local option light vehicle tax will be extended to "newly manufactured" light vehicles, which will generate an additional $3.4 million in local option revenue for counties and cities each year. Counties receive 50 percent of this revenue and the remainder is split between counties and cities based on population ratios. The revenue may be used for general purposes by either type of government.

HB 540 Complications for County Treasurers

As shown in Table 3, the distribution of motor vehicle revenue, if HB 540 passes, will be complicated significantly. County treasurers will be required to maintain a distribution mechanism which is different for each vehicle category. In addition each county treasurer will be required to count newly manufactured light vehicles, motorcycles, quadricycles, buses, heavy trucks and truck tractors and motor homes, the fees from which must be distributed to the state highway account.

County treasurers will be required to keep track of vehicles over ten years of age which have been permanently registered so as to avoid future billings. County treasurers will also have to keep track of vehicles that have been registered for two-year periods and those that have been registered for one-year periods.

HB 648, passed during the 1999 session, will also complicate matters for county treasurers and taxpayers. HB 648 requires that new vehicle license plates be placed on vehicles at a minimum of every 4 years. Owners with permanently registered vehicles will be required to replace their license plates every 4 years but will be exempt from all fees, a status that will have to be tracked by the county treasurer.

In addition, owners of vehicles with two-year registration periods which begin at the beginning of the 4th year of possession of a license plate will be required to replace plates without paying the required fees since they have already paid. County treasurers will be required to keep track of which owners are in this status and which are not.

Options for Distribution Simplification

The following options are for legislative consideration during the 2001 session for simplifying the distribution of revenue from motor vehicles.

- Treat the distribution of revenue from all categories of vehicle in a similar manner, by:

    1. Making the distribution of revenue to the district courts the same for all vehicles. The current 10 percent distribution, which applies to light vehicle revenue only, could be reduced somewhat if the intent is that district courts receive the same revenue as under HB 540.

    2. Determining how much vehicle revenue is sufficient for the highway account and making this distribution a percentage of the total. This would relieve county treasurers from counting newly manufactured vehicles. Also extend this distribution requirement to trailers and campers.

    3. Making the distribution of remaining vehicle revenue a distribution to local mills only, for all vehicle categories. This would reduce revenues in the state general fund by about $1.3 million per year.

- Either abolish the optional two-year registration period, or allow flexibility in the time period between required replacement of license plates, or make the optional registration period the same as the period for license plate replacement.

- Allow owners of vehicles which are permanently registered to retain their plates permanently, or design specialized plates for these vehicles which could also be kept permanently.

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